

BUSINESS CONDITIONS & FORECASTS

A M A News Letter

AMERICAN MANAGEMENT ASSOCIATION, 330 WEST 42nd ST., NEW YORK, N. Y.

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The President's Scratch-Pad



ALVIN E. DODD

Reports continue to reach the AMA that the drafting of young technically-trained men such as chemists, mechanical engineers and industrial engineers is threatening to create a grave problem in many companies. For example, a concern whose technical staff has already been depleted by the draft states: "We have just lost two or three of our chemical engineers who were acting as assistant superintendents and upon whom we had placed a great deal of responsibility. We needed these men seriously, but since the declaration of war there seems to be little consideration given to the needs of industry."

It is scarcely necessary to point out the dangers of stripping industry of men holding strategic jobs. From observation of British experience, both the Army and Navy must be aware that such a policy could have only the most serious consequences. Indeed, in the present instance the fault appears to lie with the local draft boards, for Director Hershey has emphasized that the deferment of essential workers must continue. If this is so, a clarifying regulation seems called for.

Incidentally, some sound advice has been voiced by a prominent trade association executive on this subject. He suggests that each large company select a good man to keep track of all draft regulations and problems, just as was done on Priorities. Hitherto many companies have neglected to request deferments for necessary personnel or have not pressed their cases for deferment strongly enough; with universal registration, however, losses of key men may become a full-time problem.

Washington and the "Ten Commandments" When, some weeks ago, this Association mailed to its membership a poster captioned "Ten Commandments of Good Organization," there followed al-

most immediately a flood of requests for extra copies. Companies throughout the country are displaying the poster permanently in their plants and offices.

Clearly, this poster with its simple, common-sense rules for organizing and managing an enterprise filled a need. Written some years ago by the late Malcolm C. Rorty, former president of AMA, the "Commandments" apply as much today as ever—probably more so because of the intensity of today's organization problems. Indeed, I have not the least doubt that much of the confusion which has attended the organization of our defense procurement agencies in Washington could have been obviated had these basic principles been more widely observed.

Speaking of organization for war, a heartening step in the right direction has been taken by the creation of the War Production Board and the appointment of Donald M. Nelson as chairman. But a job still remains to be done in snipping the red tape and in divesting defense production agencies of their bureaucratic routines. Knowing Mr. Nelson as an executive with quiet determination who has the knack of "getting things done," I am sure he will effect such a reorganization. There is every reason to believe our industrial war effort will now move into high gear.

Peddlers of Influence If anything can confuse the average American business man, it is his contact with Washington—official Washington with its maze of agencies and its bureaucratic formulas. Some business men who have sought to deal with governmental agencies confess that they have been mentally "all thumbs." Feeling uncertain and ineffective, many of them have fallen victims to "peddlers of influence" who claim to "know Washington" and to possess powerful connections in the capital.

If an agent is needed in Washington, his credentials should be most carefully scrutinized; his "connections" should be checked and double-checked; and, once his services are engaged, he should be made to report frequently and specifically.

Alvin E. Dodd

BUSINESS OUTLOOK

Rising Output of War Goods Cuts Raw Material Supply; Business Activity at New High

The growing maturity of the nation's war production effort is reflected in all phases of business. Everything possible is being done to step up industrial production of munitions, and each day the tempo rises as additional sections of industry complete their retooling processes and become producers of war matériel. The results of this are dislocations and abnormalities in all ordinary business operations. In addition, there are large numbers of economic casualties because the activities of those industries whose efforts conflict with the interests of war production are being curtailed in almost direct ratio to the rising output of arms.

Business at New High

But, in the meantime, business activity in the United States has reached the highest point on record, reflecting straight war production, considerable inventory building everywhere, and increased consumer demand. Prices are beginning to move up with new vigor, and the price index, which a year ago stood at 120.9, now registers 162.6—a gain of 34.5 per cent.

Perhaps the severest dislocations are occurring in the labor market as a result of the shutdown of factories engaged in civilian goods production. In many industries, individuals engaged in selling operations have also been displaced. It is believed, however, that this unemployment will exist for only a limited period, especially if our experience follows the British pattern.

British Experience

When Britain went to war, she had close to 1,250,000 men on the dole. The shutting down of "luxury" industries pushed jobless totals to a new low point in January, 1940. Later, however, with the job of industrial conversion well along, unemployment declined and has now reached 188,000, the bottom of the labor barrel.

BUSINESS CONDITIONS & FORECASTS . . .

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	Alexander Hamilton Institute	Brookmire, Inc.	Business Week
General Outlook	<p>The decline in the national income during November and December will probably continue through January and February because of further seasonal decline in shipments of agricultural products. But the figure should be large enough to support the expectation that 1942 national income will reach \$120,000,000,000 (Jan. 17).</p>	<p>Transition to "all out" war work means civilian curtailment with wide repercussions. Thus, a perpendicular rise in business is no longer likely, although a moderate net gain is indicated, accompanied by an inflationary undercurrent. Peace by military decision appears quite distant (January 7).</p>	<p>The <i>Business Week</i> index rose from 162.5 in November to 164.0 in December; business activity is now at peak levels. But industrial diversions are bound to increase, which means rather rapid increase in priorities unemployment. Thus business as a whole may slacken off during this changeover period (January 17).</p>
Money and Credit	<p>The government's direct debt this year will show an even greater increase than is indicated by the deficit, since the government is now converting its indirect debt into direct debt. It is estimated that the direct debt during the current fiscal year will reach the record high total of \$70,612,000,000 (January 17).</p>	<p>Money rates will rise from the subnormal levels prevailing through 1941. Though the government will doubtless prevent anything resembling tight money, enlarged borrowings will lift rates. Controls are not likely to prevent, but rather will tend to moderate, inflationary tendencies (January 7).</p>	<p>Bank deposits are at a record high—3% above previous peaks in 1930 and 1937. Industry is still borrowing fairly heavily. Commercial loans increased \$1,766,000,000 last year, and now total \$6,726,000,000—off \$58,000,000 from the peak in December, as a result of the expected post-holiday letdown (January 17).</p>
Security Markets	<p>The rally in stock prices which began in the closing days of the old year has proceeded far enough to suggest the possible reversal of the long downward trend. Whether this amounts to a definite turn to a bull market cannot be known until previous resistance levels are approached (January 8).</p>	<p>Stocks will probably emulate the London market and advance notwithstanding war handicaps. Bonds will be depressed by the immensity of war loans and demand for capital; rallies will be less likely to bring them back to the high plateau of recent years (January 7).</p>	<p>The price average of industrial stocks this week stood at 90.1, which compares with 88.5 a month ago and 104.7 a year ago. Industrial bonds average 106.2, compared with 105.5 a month ago and 103.7 a year ago (January 17).</p>
Production	<p>Production of manufactured goods in November was the largest on record, and it is probable that manufacturing activity in December was maintained at close to the November rate. Production of manufactured goods in 1941 was more than double the highest volume attained during the last World War (January 3).</p>	<p>The Federal Reserve Board's manufacturing index for November reached 173 (1935-9=100). This was an advance of .6% over October, 24.5% over November, 1940. Machine-tool shipments were 60.8% greater than in November of last year (January 7).</p>	<p>As the use of critical materials by plants engaged in defense production is sharply curtailed, a slump may occur in general activity during the first half of this year. However, about June a definite new upsurge should be under way; by the fall, production should be booming at a new all-time high (January 17).</p>
Distribution	<p>Department store sales during the week ended January 3 were 27% higher than during the same week of the previous year. The Department of Commerce estimates that instalment sales in 1941 rose to a record high of \$6,800,000,000; in the pre-depression year 1929 they were less than \$6,000,000,000 (January 17).</p>	<p>The index of department store sales for the latest month for which figures are available (November) reached 132, compared to 112 a month earlier, 114 a year earlier (1923-5=100). November mail-order sales (two houses) were \$152,300,000, as against \$164,400,000 in October, \$127,900,000 in November, 1940 (Jan. 7).</p>	<p>The Administration won't oppose a general sales tax if Congress accepts the bulk of Treasury's "progressive" tax program. The President and his advisers are resigned to the need of "restrictive" taxes "later," but the Administration wants Congress to carry the ball—and the blame—on sales taxes (January 17).</p>
Construction	<p>Restrictions on various building materials were reflected in a sharp decline in building contracts in November, and the reduction was much greater than the usual seasonal decline. However, total contracts during the first 11 months of 1941 were 49.2% higher than contracts in the same period in 1940 (January 10).</p>	<p>Construction will outstrip all records for war plants, warehouses, air and naval bases, cantonments, and similar military needs. But residential and other non-defense work will be sharply curbed by copper and steel shortages (January 7).</p>	<p>In the latest week for which figures are available, the <i>Engineering News-Record</i> four-weekly average of engineering construction awards was \$14,983,000. This compares with \$31,400,000 six months ago and \$18,404,000 a year ago (January 17).</p>
Agriculture	<p>The Department of Agriculture reports that the farmers' cash income, including government benefit payments, rose from \$9,120,000,000 in 1940 to an estimated figure of \$11,600,000,000 in 1941, the highest since 1920 (January 10).</p>	<p>The Department of Agriculture's seasonally adjusted index of farm income stood at 156.8 for November (1935-9=100). This represented a gain of 1.8% over October and 42.8% over November, 1940 (January 7).</p>	<p>The United States Bureau of Labor Statistics price index of domestic farm products averaged 176.1 in the latest week for which data are available; a month ago this index averaged 176.8 and a year ago it stood at 128.9 (August, 1940=100) (January 17).</p>
Commodity Prices	<p>The price index of 28 basic commodities, compiled on the basis of August, 1939, as 100, rose for the third consecutive week during the week ended January 9 to a new wartime peak of 162.6. Compared with a year ago, when the figure was 120.9, the latest index showed a gain of 34.5% (January 17).</p>	<p>Commodity prices will continue their advance, but rises will be highly selective. War materials especially will be subject to limitations—except where higher levels will clearly yield increased supplies. Curbs can succeed only if wages and other cost elements are controlled (January 7).</p>	<p>Even prices, which so far have lagged behind production, have now edged up to within striking distance of the 1929 level; and increased demand for war goods is bound to force prices some more. The BLS index of wholesale prices stands today at 94.3, as against the 1929 average of 95.3 and the 1929 high of 96.5 (January 17).</p>
Labor and Wages	<p>It is probable that the increase in unemployment shown in the November figures (the first since January, 1941) did not represent the beginning of a serious unemployment problem. Expansion of war production should soon absorb workers whom non-defense industries have been forced to let go (January 10).</p>	<p>Figures on factory employment for November showed a fractional decline from the previous month. The index stood at 134.5, however, compared with 114.7 a year earlier (1923-25=100). Similarly, factory payrolls declined from 166.6 in the previous month to 165.5. A year ago the payroll index stood at 116.4 (January 7).</p>	<p>Average hourly earnings of factory workers had reached 77¢ by mid-October—the highest figure in history—and the uptrend has continued unabated. However, prices have been rising more rapidly, and thus purchasing power is down. This may prove crucial when basic wage contracts are re-negotiated this spring (January 3-17).</p>
Foreign Trade and Conditions	<p>To achieve maximum efficacy of war efforts, the resources of all the allied nations will be pooled and made available where they are most needed. Under the new arrangements, tariff barriers and other trade impediments will be modified, but that does not mean an economic union will be formed, or tariffs eliminated (Jan. 17).</p>	<p>Merchandise exports totaled \$343,500,000 in October, a drop of 17.6% from the previous month but a gain of 4.8% over October of 1940. Merchandise imports declined also; they were 21.2% below September and 7.3% below October, 1940 (January 7).</p>	<p>When Britain went to war she had close to 1,250,000 men on the dole. The dislocation caused by shutting down "luxury" industries pushed jobless totals to a new high in January 1940. By 1941, the job of industrial conversion was well along; and today unemployment has declined to 188,000—almost rock bottom (Jan. 17).</p>

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Dun's Review

The intensification of the war effort is reflected throughout the business scene. In industry the shift to war production is being pressed with less regard for changeover dislocations. Rationing and price controls have been extended more widely. Retailers at spring wholesale markets are covering moderately in most lines (January).

Bank clearings (23 cities) totaled \$33,893,402 in December, compared with \$28,436,856 in November and \$27,862,272 in December a year ago. The adjusted insolvency index (failures) rose from 46.1 in November to 49.5 in December, remaining well under last December's level of 57.4 (February).

Stock prices worked generally lower during December but started an upward trend at the end of the month, which partially canceled out the earlier 9-point loss in the Dow-Jones industrial average. The index opened 1942 at a level of 113, 18 points lower than a year ago (January).

Through the year-end the pace of the war effort continued to forestall the usual seasonal decline in production. From 167 in November the FRB adjusted index reached a new peak of 168 in December. On balance, 1941 stood out as the most productive year, an average of 156 for the index comparing with a peak of 123 in 1940 (Jan.).

While the Christmas season ended at a more modest level than retailers had first anticipated, the showing for December turned out to be an exceptionally good one judged by past years. The FRB adjusted index of department store sales was 110 (1923-1925=100), matching the peak level of December, 1929 (January).

The dollar volume of building permits in December was \$93,848,299, or 17.4% smaller than a year ago. Despite a decline in the last quarter resulting from the wartime restrictions on private building, the year's total reached the highest level in 11 years, 7.4% above 1940 (February).

The wholesale price rise, largely halted during the fall, resumed with new vigor after the outbreak of war. From the first week of December to the beginning of January, the USBLIS all-commodity index advanced 2 points to 94.3. Since last February, a total of 63 price ceilings has been established (January).

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Cleveland Trust Company

During the first month of active warfare, "business as usual" was finally placed in the discard. War production is now being pushed forward with real speed, and output of consumers' durable goods is being widely curtailed. However, the munitions we have produced are not as yet even remotely adequate (January 15).

When war broke out in Europe in 1939, the total of all our debts was about the same as at the close of 1929—though, in the interval, private and corporate debts declined \$36,000,000,000 while public debt increased \$35,000,000,000. Changes in the debt structure will probably accelerate during the remainder of the war (Jan. 15).

In the past dozen years, new corporate bonds have been issued in relatively small amounts, and many corporations have used depreciation funds to retire debt instead of reinvesting them in plant and equipment (January 15).

Last June the index of industrial production reached a record high at 118, or 18% above the computed normal level. By September the index had declined to 15% above normal; in October it rose to 16% above, and in November to 17%. The preliminary figure for December is 18% above normal (January 15).

Current estimates of total retail sales of durable goods in 1941 indicate that they increased 20% over 1940. Only about half of the dollar increase, however, represents an expansion in the volume of goods sold. The other half is accounted for by a 10% increase in the average price of these goods (January 15).

National City Bank

Business observers generally agree that the aggregate of industrial activity in 1942 will be greater than in 1941, the most active year in our history. Effects of the changeover to a war economy already experienced will be intensified, fiscal problems will be greater, the danger of inflation will be more acute (January).

The firmer trend in money rates is a healthy development which, if allowed to go further, should help to obtain a broader distribution of new Treasury securities outside the banks. This is necessary if we are to cut down the inflationary consequences of government borrowing (January).

The security markets demonstrated impressively their ability to meet the shock of war. Security dealers have carried through plans for new offerings, the reception of which has been surprisingly good considering the circumstances (January).

Curtailment in important industries will make difficult any material expansion of aggregate production in the near future, but the probability of further expansion as the year goes on is evident. The steel industry will have new capacity available in 1942, and the machine-tool industry is still growing (January).

There is ground for believing that the distribution of consumers' goods will be large in 1942. The choice of goods will be lessened, and there will be few replacements for many types of durable goods, but the essential requirements of living will be well supplied. Purchasing power for necessities will be large (January).

Estimates of construction activity in 1942 have been revised upward since the outbreak of the war, more defense plants and housing being expected (January).

The situation in sugar has aroused more alarm among consumers than is warranted. If any substantial part of the Hawaiian production can be brought to the West Coast, domestic crops and crops from West Indian and South American countries can supply all the sugar needed (January).

Conditions are such that producers of many commodities, both agricultural and manufactured goods, could get higher prices if they were free of restraints. Yet any attempt by these groups to improve their position by such means would be frustrated, not only by government controls but by the operation of economic law (January).

It is likely that "priorities unemployment," notably in the Akron and Detroit areas, will reach greater proportions than previously estimated. Undoubtedly there will be a time lag before the automobile industry itself can reemploy its displaced workers (January).

The list of commodities imported from the Far East is a long one, and the Japanese may succeed in closing the ports of the East Indies entirely. At best, supply lines will be lengthened by diversion of cargoes to the South Pacific or Good Hope route, and shipping may be slowed up by convoying (January).

Marketing Conference To Offer Guides on Wartime Selling

To assist companies in adjusting their marketing policies and activities to conditions created by war production will be the purpose of the AMA Marketing Conference, to be held March 4 and 5 at the Hotel Roosevelt, New York City. The Conference Planning Committee, headed by Leonard J. Raymond, President, Dickie-Raymond, Inc., and H. R. Chapman, Vice President, New England Confectionery Company, has been in touch with hundreds of companies in all types of industries and has found that sales organizations are confronted with a host of serious problems on which careful decisions must be made.

While some companies are affected only indirectly by the war, others are finding it necessary to liquidate whole sales organizations and keep only skeleton forces. These are the two extremes in the sales picture.

Tire rationing alone has created difficulties in connection with routing and transportation of salesmen. Readjustments in salesman compensation are found necessary and in hundreds of concerns product lines must be changed in the face of growing raw material shortages.

It is planned to have the sessions treat all of these major problems in the most specific terms, giving attention to determination of sales policies for the duration, production changes, and management of sales personnel. Discussion will be based on "case stories," that will tell how particular companies are meeting such problems as mentioned above. If you have suggestions for speakers or topics send them to AMA headquarters.

Important Personnel Sessions in Chicago, February 4-5-6

Probably the most important Conference that the Personnel Division of AMA has held will take place February 4, 5 and 6 at the Hotel Stevens in Chicago. All companies in the AMA membership are urged to have one or more representatives at these sessions to participate in discussions involving the adjustment of personnel activities and policies to wartime conditions. A wide attendance is indicated for the sessions which last year attracted 1,700 executives.

The sessions have been arranged in such a way as to cover specific problems of wartime personnel and industrial relations management, allowing ample time for general discussion. Among the scheduled topics are: the labor market in wartime, quick training of supervisors and workers,

Planning Sessions on Sales Problems



HARRY R. CHAPMAN



LEONARD J. RAYMOND

personnel problems of multiple shift, plant protection, compensation of factory and "white collar" workers, women in war industries, union relationships, growing responsibilities of personnel executives, induction procedures, national labor policy, etc.

Copies of the program of the Conference have been mailed to all AMA members. If extra copies are desired, they may be had by writing to AMA headquarters.

Material Shortages To Be Principal Topic At Packaging Sessions

The most urgent of packaging problems—that of efficiently utilizing existing materials and developing substitutes for restricted materials—will be examined at the Twelfth AMA Packaging Conference, to be held at the Hotel Astor, New York City, April 14 to 17 inclusive.

At the Packaging Exposition, held concurrently with the Conference, the most recent advances in substitute materials and in technique for packaging, packing and shipping will be presented by leading suppliers of equipment, materials and machinery.

The Packaging Conference and Exposition annually brings together, in one place and at one time, many thousands of users and suppliers of materials and machinery for packaging, packing and shipping. This year all these men and companies find themselves confronted with an acute, unprecedented problem. Shortages of basic materials and the quest for substitutes are problems now familiar to all industries. In the case of packaging, packing and shipping, there is the distinguishing consideration that the problem here

has a direct influence on virtually every industry in the country, inasmuch as packaging, packing and shipping are basic requirements of product distribution.

RECENT AMA PUBLICATIONS

Since September, 1941, the following divisional publications have been issued by the AMA and sent to all members enrolled in the Divisions indicated:

OFFICE MANAGEMENT DIVISION

O. M. 94	Office Organization and Personnel Problems—Centralization, Testing, Attitude Surveys.....	\$.75
O. M. 95	Emergency Salary Administration50
O. M. 96	Stepping Up Office Production	1.00

PERSONNEL DIVISION

PERS. 51	Wartime Problems of Industrial Relations50
PERS. 52	Wage Adjustment and Grievance Policies50
PERS. 53	Selection and Training Procedures in Expanding the Working Force75

PRODUCTION DIVISION

PROD. 132	Case Studies in Training and Multiple-Shift Operation75
PROD. 133	Materials Procurement and Control—Priorities, Conservation, Inventory Control75
PROD. 134	Experiences in Wartime Production—Subcontracting, Scheduling, Compensation, Costs50

Prices mentioned are for extra copies. All members are entitled to discounts as outlined in "Recent Publications."

